

**HEBER VALLEY  
SPECIAL SERVICE DISTRICT**

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**December 31, 2010 and 2009**



**HANSEN, BARNETT & MAXWELL, P.C.**  
Certified Public Accountants

# HEBER VALLEY SPECIAL SERVICE DISTRICT

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## INDEPENDENT AUDITORS' REPORT

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the balance sheets of Heber Valley Special Service District, a component unit of Wasatch County, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heber Valley Special Service District as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2011 on our consideration of Heber Valley Special Service District's internal control over financial reporting and our tests of its compliance with certain laws, provisions, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules, "Schedule of Revenues, Expenses, Debt Retirement, and Capital Asset Acquisitions Compared to Budget as Amended (Other than Depreciation and Impact Fee

Transactions)” and “Schedule of Impact Fees and Projected Expenditures” are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The management’s discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Hansen, Barnett & Maxwell, P.C.*  
**HANSEN, BARNETT & MAXWELL, P.C.**

Salt Lake City, Utah  
April 18, 2011

## **Management's Discussion and Analysis**

### **December 31, 2010**

The following is a discussion and analysis of Heber Valley Special Service District's (the District) financial performance providing an overview of the District's financial activities for the year ended December 31, 2010. It should be read in conjunction with the District's financial statements.

#### **Financial Highlights**

The assets of Heber Valley Special Service District exceeded its liabilities at the close of the year by \$21,838,953, a decrease of net assets in 2010 of \$22,068.

The District collected \$139,824 for the plant equipment and replacement fund assessment.

The District replaced a 30 year old sump pump at the irrigation pump station.

Horrocks and Aqua Engineers finalized the plans and specifications for the plant expansion and have subsequently submitted them to the Department of Water Quality, State of Utah, for approval. The equipment for the expansion was selected and 10% of the purchase price was submitted to the successful bidders. A total of \$414,632 was expended with an additional \$40,799 accrued for the plant expansion in 2010.

Hay sales revenues were up \$30,000 from 2009 with higher hay prices.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial reporting consists of two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District uses proprietary fund accounting to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, the financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused vacation leave).

The *statement of cash flows* shows what affect the District's operating activities, investing activities, and financing activities had on cash flows. Cash is vital to all organizations, and this statement helps the reader understand how the District received and used cash during the year.

#### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are an integral part of the financial

statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain information relating to the operations of the District without regard to depreciation or impact fees, which are compared to, budgeted amounts.

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21,838,953 at the end of the year.

#### Heber Valley Special Service District's Net Assets

	2010	2009	2008
Current Assets	\$ 9,454,249	\$ 9,480,386	\$ 8,745,773
Capital Assets	12,476,565	12,459,264	13,209,480
Total Assets	21,930,814	21,939,650	21,955,253
Current Liabilities	91,861	78,629	40,696
Long-term Liabilities	-	-	-
Total Current and Long-term Debt	91,861	78,629	40,696
Net Assets:			
Invested in capital assets, net of related debt	12,476,565	12,459,264	13,209,480
Restricted for capital improvements (impact fees)	7,546,642	7,673,644	7,025,094
Unrestricted	1,815,746	1,728,113	1,673,436
Total Net Assets	\$ 21,838,953	\$ 21,861,021	\$ 21,908,010

The largest portion of the District's assets (57%) reflects its investment in capital assets (e.g. land, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. Impact fees and/or capital contingency fund charges provide resources to repay capital-related expenditures and debt.

An additional portion of the District's net assets (34%) represents resources that are subject to external restrictions on how they may be used (e.g. impact fees). The restricted balance is for capital projects and land acquisitions.

The remaining balance of unrestricted net assets (9%) may be used to meet the District's obligations to customers, member agencies, employees, and creditors to honor next year's budget.

As of December 31, 2010 *total assets* decreased slightly.

## Heber Valley Special Service District's Changes in Net Assets

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Operating Revenue			
Sewer Service Revenue	\$ 522,543	\$ 524,734	\$ 522,632
Farmstead	103,455	74,828	196,167
Total Revenues	<u>625,998</u>	<u>599,562</u>	<u>718,799</u>
Operating Expenses			
Sewer Service	318,135	300,990	309,726
Farmstead	133,110	128,272	144,495
General and Administrative	53,462	107,929	79,923
Depreciation Expense	449,903	452,889	441,396
Total Expenses	<u>954,610</u>	<u>990,080</u>	<u>975,540</u>
Net Non-Operating Revenue (Expenses)	<u>306,544</u>	<u>343,529</u>	<u>789,243</u>
Change in Net Assets	(22,068)	(46,989)	532,502
Net Assets at Beginning of Year	<u>21,861,021</u>	<u>21,908,010</u>	<u>21,375,508</u>
Net Assets at End of Year	<u><u>\$ 21,838,953</u></u>	<u><u>\$ 21,861,021</u></u>	<u><u>\$ 21,908,010</u></u>

The District's net assets decreased by \$22,068. Key elements of this decrease are as follows:

Total revenues were up slightly with a slight decrease in O&M collections revenue and Farmstead Revenues up \$30,000 with hay price increases for the 2010 season.

Impact fees collected during the year were \$244,859.

User fees remained at \$0.52 per thousand gallons with the Capital Contingency Fund rate at \$1.50 per month per equivalent residential connection. Stable flow rates kept income about the same, decreasing slightly from 2009.

The General and Administrative Expenses reflect stability of on-going treatment expenses. Farm expenses reflect stable conditions in fuel, electricity and other farm supplies.

Unrestricted net assets of the District as of December 31, 2009 amounted to \$1,815,746, an increase of \$87,634.

### Capital Asset and Debt Administration

#### Capital Assets

The District's investment in capital assets as of December 31, 2010 amounts to \$12,476,565 (net of accumulated depreciation). This investment in capital assets includes the Treatment Plant and related equipment, farm ground and related equipment, and some miscellaneous assets.

Major capital events during the current year included:

The District put 10% down on plant expansion equipment to successful equipment vendors and expended a total of \$455,431 for the expansion.

Replaced sump pump at irrigation pump station for \$10,200.

Heber Valley Special Service District's Capital Assets  
(net of depreciation)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 6,216,626	\$ 6,216,626	\$ 6,216,626
Buildings, plant and equipment - net	<u>6,259,939</u>	<u>6,242,638</u>	<u>6,992,854</u>
Net capital assets	<u>\$ 12,476,565</u>	<u>\$ 12,459,264</u>	<u>\$ 13,209,480</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

**Long-term Debt**

At the end of December 31, 2010 the District had a total long-term debt of \$0.

The District is not aware of any existing conditions that will significantly change its financial position in the current year.

**Request for Information**

This financial report is designed to provide a general overview of Heber Valley Special Service District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the office of the District in care of District Superintendent at P.O. Box 427, 1000 East Main, Midway, Utah 84049-0427.



**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Balance Sheets**  
**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and equivalents	\$ 1,845,569	\$ 1,740,609
Cash and equivalents - restricted	7,546,642	7,673,645
Receivables - other governmental units	49,021	40,920
Other receivables	5,128	17,323
Other current assets	7,889	7,889
<b>Total Current Assets</b>	<u>9,454,249</u>	<u>9,480,386</u>
<b>Capital Assets</b>		
Land and water rights	6,216,626	6,216,626
Buildings, plant and equipment	14,889,233	14,435,396
	21,105,859	20,652,022
Less: Accumulated depreciation	(8,629,294)	(8,192,758)
<b>Net Capital Assets</b>	<u>12,476,565</u>	<u>12,459,264</u>
<b>Total Assets</b>	<u><u>\$ 21,930,814</u></u>	<u><u>\$ 21,939,650</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 59,512	\$ 47,195
Other current liabilities	32,349	31,434
<b>Total Current Liabilities</b>	<u>91,861</u>	<u>78,629</u>
<b>Net Assets</b>		
Invested in capital assets	12,476,565	12,459,264
Restricted for capital improvements-impact fees	7,546,642	7,673,644
Unrestricted	1,815,746	1,728,113
<b>Total Net Assets</b>	<u>21,838,953</u>	<u>21,861,021</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 21,930,814</u></u>	<u><u>\$ 21,939,650</u></u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Statements of Revenues, Expenses and**  
**Changes in Net Assets**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Sewer service revenue	\$ 522,543	\$ 524,734
Farmstead revenue	<u>103,455</u>	<u>74,828</u>
<b>Total Operating Revenues</b>	<u>625,998</u>	<u>599,562</u>
<b>Operating Expenses</b>		
Sewer service	318,135	300,990
Farmstead	133,110	128,272
General and administrative expenses	53,462	107,929
Depreciation expense	<u>449,903</u>	<u>452,889</u>
<b>Total Operating Expenses</b>	<u>954,610</u>	<u>990,080</u>
<b>Operating Loss</b>	<u>(328,612)</u>	<u>(390,518)</u>
<b>Non-Operating Revenues</b>		
Interest income - other	9,653	16,860
Interest income - impact fees	42,771	74,215
Land rent	9,261	9,261
Impact fees	<u>244,859</u>	<u>243,193</u>
<b>Net Non-Operating Revenues</b>	<u>306,544</u>	<u>343,529</u>
<b>Change in Net Assets</b>	(22,068)	(46,989)
<b>Net Assets at Beginning of Year</b>	<u>21,861,021</u>	<u>21,908,010</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 21,838,953</u></u>	<u><u>\$ 21,861,021</u></u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 630,092	\$ 611,637
Cash paid for operating goods	(374,946)	(379,865)
Cash paid to employees	(116,529)	(119,393)
<b>Net Cash From Operating Activities</b>	<u>138,617</u>	<u>112,379</u>
 <b>Cash Flows From Noncapital Financing Activities</b>	 -	 -
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of capital assets	(467,204)	(109,220)
Restricted revenue received - impact fees	244,859	243,193
Restricted revenue received - impact fees interest	42,771	74,215
Settlement of lawsuit for lagoon repairs	-	400,000
<b>Net Cash From Capital and Related Financing Activities</b>	<u>(179,574)</u>	<u>608,188</u>
 <b>Cash Flows From Investing Activities</b>		
Proceeds from land lease	9,261	9,261
Interest on investments	9,653	16,860
<b>Net Cash From Investing Activities</b>	<u>18,914</u>	<u>26,121</u>
 <b>Net Increase (Decrease) in Cash</b>	 (22,043)	 746,688
 <b>Cash at Beginning of Year</b>	 <u>9,414,254</u>	 <u>8,667,566</u>
 <b>Cash at End of Year</b>	 <u>\$ 9,392,211</u>	 <u>\$ 9,414,254</u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of loss from operations to net cash from</b>		
<b>operating activities:</b>		
Loss from operations	\$ (328,612)	\$ (390,518)
Items not requiring the use of cash:		
Depreciation	449,903	452,889
Net changes in certain assets and liabilities:		
Receivables - other governmental unit	(8,101)	(645)
Other receivables	12,195	12,720
Accounts payable	12,317	37,905
Other current liabilities	<u>915</u>	<u>28</u>
<b>Net Cash From Operating Activities</b>	<u><u>\$ 138,617</u></u>	<u><u>\$ 112,379</u></u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** — The Heber Valley Special Service District (the “District”) was organized in 1977 by the Board of County Commissioners of Wasatch County, Utah for the purpose of providing sewage collection and treatment services. The Board of County Commissioners supervises and controls the activities of the District and, therefore, the District is considered a component unit of the County. The District follows governmental accounting principles and is accounted for as an enterprise fund in a manner similar to a private business where the intent of the governing body is that the costs of providing services (including depreciation) on a continuing basis is financed primarily through user charges.

**Basis of Accounting** — The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, for Proprietary Fund accounting, the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Pronouncements and Accounting Principles Board Opinions.

**Capital Assets** — All plant assets are included in the financial statements and are stated at historical cost. Depreciation is provided using the straight-line method over their estimated service lives. The service lives by type of asset are as follows:

Building and improvements	40 years
Equipment and vehicles	5 - 10 years

**Cash Equivalents** — For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Operating and Non-Operating Revenue and Expenses** — Operating revenues and expenses result from providing goods and services relating to the primary operations of the District. Other revenues and expenses are reported as non-operating.

**Use of Restricted Net Assets** — Impact fees are restricted for capital improvements. Improvements can also be made using unrestricted funds at the discretion of the Board.

**Subsequent Events** — We have evaluated subsequent events after the balance sheet date of December 31, 2010 through April 18, 2011 which is the date the financial statements were available to be issued.

## NOTE 2 – CASH DEPOSITS AND INVESTMENTS

**Cash Deposits** — All bank deposits were covered by federal depository insurance. Deposits are not collateralized, nor are they required to be by State statute.

**Investments** — The District's deposits and investment policy follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Chapter 7) in handling its depository and temporary investing transactions. This law requires the depositing of District funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. Allowable investments under the Act include:

1. Negotiable or nonnegotiable deposits of qualified depositories,
2. Repurchase agreements with qualified depositories or primary reporting dealers,
3. Commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poors if the remaining term to maturity is 180 days or less,
4. Bankers' acceptances that are eligible for discount at a federal reserve bank and which have a remaining term of 180 days or less,
5. Obligations of the United States Treasury, including bills, notes and bonds,
6. Obligations issued by or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Farm Credit banks, Federal Home Loan banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporations, or Student Loan Marketing Association,
7. Shares or certificates in any open-end management investment company registered with the Securities and Exchange under the Investment Company Act of 1940, the portfolio of which is restricted by law or agreement to investments in which public funds may be invested directly.

A State Money Management Council was created under the State Money Management Act consisting of five individuals appointed by the Governor and qualified by training and experience in the fields of investing and finance. In performing its functions and responsibilities, the council provides a measure of depository protection. The council issues a list of qualified depositories to public treasurer's quarterly, and monitors the maximum amount of public funds each depository is eligible to hold in accordance with the law and the rules of the council. State law and council rules govern the finance reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, the public treasurers are notified immediately.

The District has invested all of its temporarily idle funds (totaling \$9,379,241 and \$9,401,389 as of December 31, 2010 and 2009, respectively) with the Utah Public Treasurer's Investment Fund (PTIF).

The Utah State Treasurer's Office operates the PTIF which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF.

The investments with the State bore interest at .48% and .62% at December 31, 2010 and 2009, respectively. The carrying amount is materially equal to fair value. All securities comprising the PTIF comply with strict investment criteria required by the Utah Money Management Act. All practices of the Fund are under the monthly scrutiny of the Utah Money Management Act. The Utah State Auditor audits the Fund each year. The degree of risk of the fund depends upon the underlying portfolio. Parties interested in learning what specific investments comprise the State Treasurer's Fund may contact the Utah State Treasurer's Office.

**Summary** — The above described cash deposits and investments are presented in the financial statements as follows at December 31:

	<b>2010</b>	<b>2009</b>
Cash in bank	\$ 12,970	\$ 12,865
Cash - PTIF general account	<u>1,832,599</u>	<u>1,727,744</u>
Total Unrestricted Cash	1,845,569	1,740,609
Cash - Restricted (PTIF impact fees)	<u>7,546,642</u>	<u>7,673,645</u>
Total Cash	<u><u>\$ 9,392,211</u></u>	<u><u>\$ 9,414,254</u></u>

### NOTE 3 – CAPITAL ASSETS

The following is a summary of the capital asset activity for the year ended December 31, 2010:

<b>Capital Assets</b>	<b>Balance December 31, 2009</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance December 31, 2010</b>
<b>Capital assets not being depreciated:</b>				
Land and water rights	\$ 6,216,626	\$ -	\$ -	\$ 6,216,626
Plant expansion in progress	-	455,431	-	455,431
Total capital assets not being depreciated	6,216,626	455,431	-	6,672,057
<b>Capital assets being depreciated:</b>				
Sewage treatment plant	12,298,029	-	-	12,298,029
Ground water drains	86,811	-	-	86,811
Treatment plant equipment	629,826	-	-	629,826
Plant and farm equipment	1,420,730	11,773	13,367	1,419,136
Total capital assets being depreciated	14,435,396	11,773	13,367	14,433,802
<b>Accumulated Depreciation:</b>				
Sewage treatment plant	6,774,340	326,739	-	7,101,079
Ground water drains	73,271	967	-	74,238
Sewage Treatment Equipment	570,712	11,992	-	582,704
Plant and Farm Equipment	774,435	110,205	13,367	871,273
Total accumulated depreciation	8,192,758	449,903	13,367	8,629,294
Total capital assets being depreciated, net	6,242,638	(438,130)	-	5,804,508
<b>Capital assets, net</b>	<b>\$ 12,459,264</b>	<b>\$ 17,301</b>	<b>\$ -</b>	<b>\$ 12,476,565</b>



The following is a summary of the capital asset activity for the year ended December 31, 2009:

<b>Capital Assets</b>	<b>Balance December 31, 2008</b>	<b>Additions</b>	<b>Disposals</b>	<b>Lawsuit Settlement - Lagoon Repair</b>	<b>Balance December 31, 2009</b>
<b>Capital assets not being depreciated:</b>					
Land and water rights	\$ 6,216,626	\$ -	\$ -	\$ -	\$ 6,216,626
Total capital assets not being depreciated	<u>6,216,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,216,626</u>
<b>Capital assets being depreciated:</b>					
Sewage treatment plant	12,648,734	49,295	-	400,000	12,298,029
Ground water drains	86,811	-	-	-	86,811
Lift station fences	19,870	-	19,870	-	-
Treatment plant equipment	629,826	-	-	-	629,826
Plant and farm equipment	<u>1,360,805</u>	<u>59,925</u>	<u>-</u>	<u>-</u>	<u>1,420,730</u>
Total capital assets being depreciated	<u>14,746,046</u>	<u>109,220</u>	<u>19,870</u>	<u>400,000</u>	<u>14,435,396</u>
<b>Accumulated Depreciation:</b>					
Sewage treatment plant	6,440,710	333,630	-	-	6,774,340
Ground water drains	72,303	968	-	-	73,271
Lift station fences	19,870	-	19,870	-	-
Sewage Treatment Equipment	557,692	13,020	-	-	570,712
Plant and Farm Equipment	<u>669,164</u>	<u>105,271</u>	<u>-</u>	<u>-</u>	<u>774,435</u>
Total accumulated depreciation	<u>7,759,739</u>	<u>452,889</u>	<u>19,870</u>	<u>-</u>	<u>8,192,758</u>
Total capital assets being depreciated, net	<u>6,986,307</u>	<u>(343,669)</u>	<u>-</u>	<u>400,000</u>	<u>6,242,638</u>
<b>Capital assets, net</b>	<u>\$ 13,202,933</u>	<u>\$ (343,669)</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ 12,459,264</u>

During 2009, the District received \$400,000 in cash due to settlement of litigation with contractors over the cost of repairs from a leak in a lagoon. The repairs were considered an improvement on the existing lagoon and the cash from the settlement was accounted for as a reduction to the amounts that had previously been added to property and equipment, thus causing a decrease in the current period.

#### NOTE 4 – NET ASSETS

***Restricted for Capital Improvements – Impact Fees*** — By resolution entitled “Resolution 00-01, Heber Valley Special Service District Waste Water Treatment Facilities Impact Fee Resolution” and effective April 19, 2000, the District assesses an impact fee on land development within the District boundaries to provide for sewer facilities necessitated by such development. These fees are accounted for as non-operating revenue and are not to be used for general operations. Also, the earnings on the impact fees investments are not to be used for general operations and are, therefore, accounted for as restricted revenue. As plant improvements are made, the amount of the improvements is moved from restricted net assets to unrestricted net assets.

The following is a summary of the activity affecting the net assets restricted for capital improvements – impact fees:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 7,673,644	\$ 7,025,094
Impact fees received	244,859	243,193
Interest income - impact fees	42,771	74,215
Settlement on litigation	-	400,000
Payments for plant improvements and maintenance	<u>(414,632)</u>	<u>(68,858)</u>
Balance - end of year	<u>\$ 7,546,642</u>	<u>\$ 7,673,644</u>

#### **NOTE 5 – LAND RENT**

In June 1999 the District purchased land with an agreement to lease the property back to the seller. The District is leasing the land back to the seller for \$4,737 per year. The lease agreement is ongoing but can be terminated with a one year's notice.

In April 2004 the District entered into a lease agreement whereby the District is leasing land to another party for \$2,100 per year. The lease terminated on August 31, 2009. Effective September 1, 2009 the land was leased to another party for \$3,024 per year. This lease is scheduled to terminate October 31, 2016. However, the District does have the option to terminate the lease early subject to an early termination fee.

In May 2004 the District entered into another lease agreement to lease land to another party for \$1 per year. This lease will end in 2024.

In 2009 and 2010, the District received payment for a land lease that had been terminated with an amount owing the District. Since termination of the lease, the land was sold. The receivable for this rent had been written off in a prior year. The former lessee is now paying the amounts that were owed during the term of the lease in an effort to make good on the former debt and intends to continue paying until the amount owed is satisfied. The amount included in land rent is \$1,500 for 2009 and 2010.

#### **NOTE 6 – LITIGATION SETTLEMENT**

In 2000, the District had entered into a contract for the construction of a new lagoon. After construction, the lagoon leaked and the District brought an action against the contractors, who in turn sued the subcontractors on the job. In May 2009, all parties entered into a settlement agreement in which the District received \$400,000 from the other parties. The lagoon was repaired in a prior year and the cash received from the settlement was recorded as a reduction to those costs.

#### **NOTE 7 – RETIREMENT PLAN**

**Plan Description** — The Heber Valley Special Service District contributes to the Local Governmental Contributory Retirement System (Contributory System) and Local Governmental Noncontributory Retirement System which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issued a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

***Funding Policy*** — Heber Valley Special Service District was required to contribute 11.66% of their covered salary for the period from January 2010 to June 2010 and 13.37% for the period from July 2010 to December 2010. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District contributions to the Noncontributory Retirement System for December 31, 2010, 2009, and 2008 were \$14,530, \$13,806, and \$12,975, respectively. The contributions were equal to the required contributions for each year.

#### **NOTE 8 – ECONOMIC DEPENDENCY**

The District is economically dependent on the services it provides to Heber City and Midway Sanitation Districts. All of the District's Sewer Service Revenue (including small amounts of dump station income) comes from these governmental entities. Sewer Service Revenue from the two entities provided \$282,469 and \$235,629 in 2010 and \$286,282 and \$232,009 in 2009, respectively. Total dump station income was \$4,445 and \$6,330 for 2010 and 2009, respectively.

#### **NOTE 9 – MAYFLOWER SERVICE AGREEMENT/JORDANELLE SPECIAL SERVICE DISTRICT**

The District entered into an agreement with Mayflower Special Service District on August 29, 1989 whereby the Heber Valley Special Service District would provide sewage treatment to certain properties located within Wasatch County. However, that agreement was voided with the creation of the Jordanelle Special Service District. In May 1998 the Wasatch County Commissioners determined that the entity of choice for sewer and other municipal services in the Jordan Basin, including Mayflower, is the Jordanelle Special Service District. The 1999 Facility Plan of the Heber Valley Special Service District recognizes 1,640 potential connections from the Jordanelle Special Service District. As of December 31, 2010, there are 1,027 equivalent residential connections (ERC's).

On October 29, 2001 the District passed Resolution No. 01-02 supporting the design and construction of a wastewater treatment facility by the Jordanelle Special Service District. The District will cooperate with Jordanelle in the approval, design, and construction of a wastewater treatment facility and provide wastewater treatment during that process.

#### **NOTE 10 – RISK MANAGEMENT**

The District is subject to risk of loss from various events, including torts, theft, damage to assets, business interruption, errors and omissions, and job-related injuries to employees, as well as acts of God.

The District has purchased insurance and workers' compensation coverage to minimize its risk of loss. There has been no significant reduction in coverage against these losses from year to year.

## **SUPPLEMENTAL INFORMATION**

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Schedule of Revenues, Expenses**  
**And Capital Asset Acquisitions**  
**Compared to Budget as Amended**  
**(Other than Depreciation and Impact Fee Transactions)**  
**For the Year Ended December 31, 2010**

	Original	Final		Variance with Final Budget Over/ (Under)
Operating Revenues	Budget	Budget	Actual	
Sewer service charges	\$ 512,824	\$ 520,124	\$ 522,543	\$ 2,419
Farmstead revenue	102,000	80,000	103,455	23,455
<b>Total Operating Revenues</b>	<b>614,824</b>	<b>600,124</b>	<b>625,998</b>	<b>25,874</b>
<b>Other Revenue</b>				
Interest income (excluding impact fee interest)	9,800	18,000	9,653	(8,347)
Land rent	7,761	7,761	9,261	1,500
<b>Total Revenues</b>	<b>632,385</b>	<b>625,885</b>	<b>644,912</b>	<b>19,027</b>
<b>Operating Expenses</b>				
Sewer service	319,890	371,500	318,135	(53,365)
Farmstead	136,475	176,200	133,110	(43,090)
Administrative and general expenses (excluding depreciation)	57,250	71,350	53,462	(17,888)
<b>Total Operating Expenses</b>	<b>513,615</b>	<b>619,050</b>	<b>504,707</b>	<b>(114,343)</b>
<b>Capital Acquisitions</b>				
Capital purchases and updates	10,000	100,000	467,204	367,204
<b>Excess of Revenues Over (Under) Expenses and Capital Acquisitions</b>	<b>\$ 108,770</b>	<b>\$ (93,165)</b>	<b>\$ (326,999)</b>	<b>\$ 233,834</b>

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Schedule of Impact Fees**  
**December 31, 2010**

<u>Entity From Which Funds Were Collected</u>	<u>Fees Collected</u>	<u>Year End Balance</u>	<u>Year Received</u>
<b>December 31, 2007</b>		<b><u>\$ 6,410,797</u></b>	
Heber City	\$ 347,133		2008
Midway Sanitation District	104,252		2008
Twin Creeks Special Service District	59,580		2008
Interest earnings	<u>222,398</u>		
<b>Total collected for 2008</b>	<b><u>\$ 733,363</u></b>		
Less expenditures - Plant Improvements & Expansion		<u>(119,066)</u>	
<b>December 31, 2008</b>		<b><u>\$ 7,025,094</u></b>	
Heber City	\$ 203,713		2009
Midway Sanitation District	36,190		2009
Twin Creeks Special Service District	3,290		2009
Settlement of lawsuit for lagoon repairs	400,000		
Interest earnings	<u>74,215</u>		
<b>Total collected for 2009</b>	<b><u>\$ 717,408</u></b>		
Less expenditures - Plant Improvements & Expansion		<u>(68,858)</u>	
<b>December 31, 2009</b>		<b><u>\$ 7,673,644</u></b>	
Heber City	\$ 202,089		2010
Midway Sanitation District	42,770		2010
Twin Creeks Special Service District	-		2010
Interest earnings	<u>42,771</u>		
<b>Total collected for 2010</b>	<b><u>\$ 287,630</u></b>		
Less expenditures - Plant Improvements & Expansion		<u>(414,632)</u>	
<b>December 31, 2010</b>		<b><u>\$ 7,546,642</u></b>	

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**Projected Expenditures of Impact Fees**  
**December 31, 2010**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Plant Improvements &amp; Expansion</b>	\$3,000,000	\$4,250,000	\$100,000	\$100,000	\$100,000

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District as of and for the year ended December 31, 2010, and have issued our report thereon dated April 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Heber Valley Special Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Heber Valley Special Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Heber Valley Special Service District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Heber Valley Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board, management, and governmental oversight bodies and is not intended to be and should not be used by anyone other than these specified parties.

*Hansen, Barnett & Maxwell, P.C.*

**HANSEN, BARNETT & MAXWELL P.C.**

Salt Lake City, Utah  
April 18, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH GENERAL AND SPECIFIC REQUIREMENTS APPLICABLE  
TO AUDITS OF LOCAL GOVERNMENTS IN UTAH**

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District for the year ended December 31, 2010, and have issued our report thereon dated April 18, 2011. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Service and Local Districts
- Impact Fees
- Utah Retirement System
- Other Compliance Requirements

The District did not receive any major or non-major State grants during the year ended December 31, 2010.

The management of the Heber Valley Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Service Area's compliance with those requirements.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Heber Valley Special Service District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2010.

This report is intended solely for the information and use of the board, management, and governmental oversight bodies and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

*Hansen, Barnett & Maxwell, P.C.*

**HANSEN, BARNETT & MAXWELL P.C.**

Salt Lake City, Utah  
April 18, 2011